

CITY OF CLARION, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

City of Clarion, Iowa

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-10
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 11-13
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 14-15
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 16-17
Notes to Financial Statements	18-28
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	29-30
Notes to Required Supplementary Information – Budgetary Reporting	31
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 32-35
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2 36
Schedule of Indebtedness	3 37-38
Bond and Note Maturities	4 39-42
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5 43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	44-45
Schedule of Findings	46-51

City of Clarion, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Ofsthethun	Mayor	Jan 2008
Mike Nail	Mayor Pro tem	Jan 2006
Pam Whitters	Council Member	Jan 2006
Kirk Rier	Council Member	Jan 2006
Steve Evans	Council Member	Jan 2008
Francis Stumpf	Council Member	Jan 2008
Vicky Boyington	City Administrator/Clerk	Jan 2006
Duane Asbe	Treasurer	Indefinite
Robert Brinton	Attorney	Jan 2006

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Clarion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Clarion, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting of the City of Clarion, Iowa as of June 30, 2005 and the changes in cash basis financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Clarion, Iowa as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2005 on our consideration of the City of Clarion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clarion's primary government's basic financial statements. Other auditors previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

November 3, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Clarion provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of all the City's governmental activities increased 26%, or approximately \$599,123, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$102,724 and bond proceeds increased by \$102,525.
- Disbursements decreased 6%, or approximately \$171,419, in fiscal 2005 from fiscal 2004. Public safety, debt service and capital projects disbursements increased approximately \$30,620, \$15,673 and \$538,813, respectively.
- The City's total cash basis net assets decreased 1.8%, or approximately \$46,907, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$66,419 and the assets of the business type activities decreased approximately \$113,326.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to the accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may service over time as a useful indicator of financial position. The City's cash balance for governmental activities increased about 7% from a year ago, increasing from \$1.732 to \$1.859 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 684	448
Operating grants, contributions and restricted interest	335	413
Capital grants, contributions and restricted interest	204	-
General receipts:		
Property tax	1,315	1,116
Local option sales tax	233	192
Unrestricted investment earnings	40	30
Bond proceeds	1,097	1,200
Other general receipts	106	118
Transfers, net	<u>132</u>	<u>(35)</u>
Total receipts and transfers	<u>4,146</u>	<u>3,482</u>
Disbursements:		
Public safety	567	537
Public works	611	1,260
Culture and recreation	299	303
Community and economic development	71	172
General government	196	198
Debt service	1,797	581
Capital projects	<u>539</u>	<u>-</u>
Total disbursements	<u>4,080</u>	<u>3,051</u>
Increase in cash basis net assets	66	431
Cash basis net assets beginning of year	<u>1,793</u>	<u>1,301</u>
Cash basis net assets end of year	<u>1,859</u>	<u>1,732</u>

The City's total receipts for all governmental activities increased by 19% or \$673,839. The total cost of all programs and services increased by \$1,028,581 or 34%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of urban renewal tax increment financing revenue bonds. The increase in disbursements was due primarily to retirement of interim financing.

The City decreased property tax rates for 2005 by an average of less than 1 percent.

The cost of all governmental activities this year was \$4.080 million compared to \$3.050 million last year. However, as shown in the statement of activities and net assets on pages 11-13, the amount taxpayers ultimately financed for these activities was only \$2.857 million because some of the cost was paid by those directly benefited from the programs or by other governments and organizations that subsidized certain programs.

The taxpayers financed \$2.189 million for governmental activities for the previous period.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Program receipts:		
Charges for service:		
Water	\$ 440	422
Sewer	258	259
Other	86	93
Operating grants, contributions and restricted interest	6	13
General receipts	-	9
Total receipts	<u>790</u>	<u>796</u>
Disbursements and transfers:		
Water	383	245
Sewer	300	526
Other	88	103
Transfers	<u>132</u>	<u>(35)</u>
Total disbursements and transfers	<u>903</u>	<u>839</u>
Increase (decrease) in cash balance	(113)	(43)
Cash basis net assets beginning of year	<u>860</u>	<u>914</u>
Cash basis net assets end of year	<u>747</u>	<u>871</u>
	=====	=====

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Clarion completed the year, its governmental funds reported a combined fund balance of \$1,859,459, an increase of more than \$66,553 above last year's total. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$86,654 from the prior year to \$519,696.
- The Urban Renewal Tax Increment Fund was established in previous years to account for a major urban renewal project within the City. At the end of the fiscal year the cash balance was \$310,810, a decrease of \$31,452 from the previous year. The decrease was primarily to funding Industrial Park infrastructure, 1/3 of a spec building and transferring \$150,000.00 to the Clarion Aquatic Center Project fund as well as annual tax increment debt service.
- The Street Projects Fund cash balance decreased by \$48,323 to a negative cash balance of \$146,372 at June 30, 2005. This is a result of paying off interim financing.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$72,606 to \$557,716, due primarily to a \$312,000 expenditure for a water project.
- The Sewer Fund cash balance decreased by \$39,094 to \$113,428, due primarily to the payment of debt.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget May 16, 2005. The amendment was and resulted in an increase in operating disbursements related to funding sources for airport shop hangar fire repair, 2003 airport blacktopping, callable bonds, 2003 street financing, Clarion Aquatic Center construction and Library Project purchase and demolition. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$4.519 million in bonds and other long-term debt, compared to approximately \$5.171 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

	Year ended, June 30,	
	<u>2005</u>	<u>2004</u>
General obligation bonds	\$ 2,884	3,486
Special assessment bonds and notes	385	300
Revenue notes	<u>1,250</u>	<u>1,385</u>
Total	<u>\$ 4,519</u>	<u>5,171</u>
	=====	=====

Debt decreased as a result of paying off interim financing. In addition, the City issued urban renewal tax increment financing revenue bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$2,884,207 is significantly below its constitutional debt limit of \$12 million.

ECONOMIC FACTORS AND PROJECTIONS FOR THE CITY OF CLARION

The City of Clarion's elected and appointed officials and citizens considered many factors when setting each year's budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City is looking forward to filling the 40 acre industrial park located in southeast Clarion. At this time the City has a commitment from a company to bring 80 jobs to the Clarion Industrial Park.

We are pleased that our downtown and all retail stores are continuing to maintain and even show signs of growth.

We are pleased to say that the Clarion Development Commission, the Clarion Chamber have joined forces as "The Clarion Partnership for Growth and is partnering with the City of Clarion to make Clarion a forward thinking, progressive and committed in providing groundbreaking solutions for businesses that will enhance growth and profitability.

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Vicky J. Boyington, City Clerk, 121 1st SW, Clarion, Iowa 50525.

Basic Financial Statements

As of and for the year ended June 30, 2005

		Program Receipts		
			Operating Grants, Contributions, and Restricted <u>Interest</u>	Capital Grants, Contributions and Restricted <u>Interest</u>
	<u>Disbursements</u>	<u>Service</u>		
Functions/Programs:				
Governmental activities:				
Public safety	\$ 567,306	173,931	1,673	-
Public works	610,639	168,816	254,543	-
Culture and recreation	299,356	41,067	26,583	-
Community and economic development	70,848	3,292	50,000	-
General government	195,578	20,921	1,813	-
Debt service	1,797,032	70,671	-	-
Capital projects	<u>538,813</u>	<u>205,163</u>	<u>-</u>	<u>204,064</u>
Total governmental activities	<u>4,079,572</u>	<u>683,861</u>	<u>334,612</u>	<u>204,064</u>
Business type activities:				
Water	383,342	440,015	2,586	-
Sewer rental	299,960	258,480	2,386	-
Other	<u>88,284</u>	<u>86,471</u>	<u>187</u>	<u>-</u>
Total business type activities	<u>771,586</u>	<u>784,966</u>	<u>5,159</u>	<u>-</u>
Total	\$ 4,851,158	1,468,827	339,771	204,064

Exhibit A

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
(391,702)	-	(391,702)
(187,280)	-	(187,280)
(231,706)	-	(231,706)
(17,556)	-	(17,556)
(172,844)	-	(172,844)
(1,726,361)	-	(1,726,361)
<u>(129,586)</u>	<u>-</u>	<u>(129,586)</u>
<u>(2,857,035)</u>	<u>-</u>	<u>(2,857,035)</u>
-	59,259	59,259
-	(39,094)	(39,094)
<u>-</u>	<u>(1,626)</u>	<u>(1,626)</u>
<u>-</u>	<u>18,539</u>	<u>18,539</u>
<u>(2,857,035)</u>	<u>18,539</u>	<u>(2,838,496)</u>

(continued)

City of Clarion, Iowa

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

	Net (Disbursements) Receipts and Changes in Cash Basis Net Asset		
	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
General Receipts:			
Property tax levied for:			
General purposes	\$ 662,203	-	662,203
Tax increment financing	376,982	-	376,982
Debt service	276,135	-	276,135
Local option sales tax	233,180	-	233,180
Unrestricted interest on investments	39,693	135	39,828
Bond proceeds	1,097,475	-	1,097,475
Miscellaneous	105,920	-	105,920
Transfers	<u>132,000</u>	<u>(132,000)</u>	<u>-</u>
Total general receipts and transfers	<u>2,923,588</u>	<u>(131,865)</u>	<u>2,791,723</u>
Change in cash basis net assets	66,553	(113,326)	(46,773)
Cash basis net assets beginning of year, as restated	<u>1,792,906</u>	<u>860,323</u>	<u>2,653,229</u>
Cash basis net assets end of year	<u>\$ 1,859,459</u>	<u>746,997</u>	<u>2,606,456</u>
Cash Basis Net Assets			
Restricted:			
Streets	\$ 140,267	-	140,267
Urban renewal purposes	310,810	-	310,810
Debt service	296,526	-	296,526
Other purposes	592,160	-	592,160
Unrestricted	<u>519,696</u>	<u>746,997</u>	<u>1,266,693</u>
Total cash basis net assets	<u>\$ 1,859,459</u>	<u>746,997</u>	<u>2,606,456</u>

See notes to financial statements.

City of Clarion, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	<u>General</u>	<u>Special Revenue</u> Tax Increment <u>Financing</u>	<u>Capital Projects</u> Street <u>Projects</u>
Receipts:			
Property tax	\$ 460,084	-	-
Tax increment financing collections	-	376,982	-
Other city tax	17,125	-	-
Use of money and property	66,527	-	-
Licenses and permits	4,617	-	-
Intergovernmental	31,745	50,000	-
Charges for service	382,081	-	-
Special assessments	-	3,292	183,792
Miscellaneous	65,935	1,958	-
Total receipts	<u>1,028,114</u>	<u>432,232</u>	<u>183,792</u>
Disbursements:			
Operating:			
Public safety	371,318	-	-
Public works	227,438	-	-
Culture and recreation	237,696	-	-
Community and economic development	-	70,848	-
General government	156,433	-	-
Debt service	-	214,594	5,270
Capital projects	-	-	222,765
Total disbursements	<u>992,885</u>	<u>285,442</u>	<u>228,035</u>
Excess (deficiency) of receipts over (under) disbursements	<u>35,229</u>	<u>146,790</u>	<u>(44,243)</u>
Other financing sources (uses):			
Note proceeds	-	-	1,097,475
Repay interim financing	-	-	(1,200,000)
Operating transfers in	51,425	23,183	228,928
Operating transfers out	-	(201,425)	(130,483)
Total other financing sources (uses)	<u>51,425</u>	<u>(178,242)</u>	<u>(4,080)</u>
Net change in cash balances	86,654	(31,452)	(48,323)
Cash balances beginning of year, as restated	433,042	342,262	(98,049)
Cash balances end of year	<u>\$ 519,696</u>	<u>310,810</u>	<u>(146,372)</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	519,696	-	-
Special revenue funds	-	310,810	-
Capital project funds	-	-	(146,372)
Permanent funds	-	-	-
Total cash basis fund balances	<u>\$ 519,696</u>	<u>310,810</u>	<u>(146,372)</u>
See notes to financial statements.			

Exhibit B

Other	
Nonmajor	
Governmental	
<u>Funds</u>	<u>Total</u>
446,251	906,335
-	376,982
248,059	265,184
6	66,533
-	4,617
397,924	479,669
-	382,081
70,671	257,755
109,601	177,494
<u>1,272,512</u>	<u>2,916,650</u>
195,988	567,306
383,201	610,639
61,660	299,356
-	70,848
39,145	195,578
377,168	597,032
316,048	538,813
<u>1,373,210</u>	<u>2,879,572</u>
<u>(100,698)</u>	<u>37,078</u>
-	1,097,475
-	(1,200,000)
287,300	590,836
(126,928)	(458,836)
<u>160,372</u>	<u>29,475</u>
59,674	66,553
<u>1,115,651</u>	<u>1,792,906</u>
<u>1,175,325</u>	<u>1,859,459</u>
296,526	296,526
-	519,696
597,505	908,315
228,016	81,644
53,278	53,278
<u>1,175,325</u>	<u>1,859,459</u>

City of Clarion, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the Year ended June 30, 2005

	Enterprise Funds	
	<u>Water</u>	<u>Sewer Rental</u>
Operating receipts:		
Charges for service	\$ 440,015	258,480
Miscellaneous	2,586	2,386
Total operating receipts	<u>442,601</u>	<u>260,866</u>
Operating disbursements:		
Business type activities	<u>317,572</u>	<u>195,170</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>125,029</u>	<u>65,696</u>
Non-operating receipts (disbursements):		
Interest on investments	135	-
Debt service	<u>(65,770)</u>	<u>(104,790)</u>
Total non-operating receipts (disbursements)	<u>(65,635)</u>	<u>(104,790)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>59,394</u>	<u>(39,094)</u>
Other financing sources (uses):		
Operating transfers out	<u>(132,000)</u>	<u>-</u>
Net change in cash balances	(72,606)	(39,094)
Cash balances beginning of year, as restated	<u>630,322</u>	<u>152,522</u>
Cash balances end of year	<u>\$ 557,716</u>	<u>113,428</u>
Cash Basis Fund Balances:		
Reserved for debt service	\$ 216,875	-
Unreserved	<u>340,841</u>	<u>113,428</u>
Total cash basis fund balances	<u>\$ 557,716</u>	<u>113,428</u>

See notes to financial statements.

Exhibit C

Other Nonmajor Enterprise	
<u>Fund</u>	<u>Total</u>
86,471	784,966
<u>187</u>	<u>5,159</u>
<u>86,658</u>	<u>790,125</u>
 <u>88,284</u>	 <u>601,026</u>
 <u>(1,626)</u>	 <u>189,099</u>
 -	135
<u>-</u>	<u>(170,560)</u>
<u>-</u>	<u>(170,425)</u>
 <u>(1,626)</u>	 <u>18,674</u>
 <u>-</u>	 <u>(132,000)</u>
 (1,626)	(113,326)
<u>77,479</u>	<u>860,323</u>
<u>75,853</u>	<u>746,997</u>
 -	216,875
<u>75,853</u>	<u>530,122</u>
<u>75,853</u>	<u>746,997</u>

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Clarion is a political subdivision of the State of Iowa located in Wright County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Clarion, Iowa has included only the Primary Government of the City of Clarion, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government.

Jointly Governed Organizations

The City participates in a jointly governed organization that provides services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Wright County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Clarion, Iowa
Notes to Financial Statements

June 30, 2005

Special Revenue:

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Project:

The Street Project Fund is used to account for street improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for operation and maintenance of the City's water system.

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Clarion maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

(2) **Cash and Investments**

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the City had the following investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Savings Bond	\$ 6,500 =====	\$ 6,500 =====

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

(3) Long-Term Debt

Bonds and Notes

Annual debt service requirements to maturity for general obligation, revenue and special assessment bonds and notes are as follows:

Year Ending June 30,	General Obligations Bonds and Notes		Revenue Bonds and Notes		Special Assessment Bonds and Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 395,070	160,182	80,000	62,368	60,000	22,137	535,070	244,687
2007	315,260	115,056	85,000	58,570	65,000	15,603	465,260	189,229
2008	337,029	99,767	85,000	54,500	65,000	12,248	487,029	166,515
2009	348,921	83,216	90,000	50,407	65,000	8,814	503,921	142,437
2010	320,945	65,710	95,000	46,058	55,000	5,205	470,945	116,973
2011	248,111	49,140	100,000	41,407	15,000	3,090	363,111	93,637
2012	258,871	38,359	105,000	36,463	15,000	2,445	378,871	77,267
2013	210,000	27,080	110,000	31,213	15,000	1,774	335,000	60,067
2014	220,000	18,680	115,000	25,658	15,000	1,080	350,000	45,418
2015	230,000	9,660	120,000	19,817	15,000	363	365,000	29,840
2016	---	---	130,000	13,688	---	---	130,000	13,688
2017	---	---	135,000	7,012	---	---	135,000	7,012
Total	\$ 2,884,207	666,850	1,250,000	447,161	385,000	72,759	4,519,207	1,186,770

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activities and bond/note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue bond and note sinking accounts for the purpose of making the bond and note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a water revenue bond and note reserve account until the required balance is accumulated. The water revenue bond reserve account is restricted for the purpose of paying for unusual or extraordinary maintenance, repairs, renewals and replacements to the system and when necessary for the purpose of making payments of principal and interest.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

- (d) The governing body shall set rates sufficient in amounts to produce net revenues from the water fund adequate to pay not less than 125 percent of the interest and principal requirements for the next fiscal year.

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, during the year, \$214, 594 was paid from the Special Revenue Fund, TIF account.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$46,933, \$45,092 and \$43,765, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable and comp time payable, to employees at June 30, 2005, primarily relating to the General Fund, is \$30,800 and \$28,000 respectively. These liabilities have been computed based on rates of pay as of June 30, 2005.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

(6) Leases

The City has entered into a lease purchase agreement with the Community Memorial Hospital of Clarion Foundation. The Foundation is an organization that is exempt from federal income tax as an organization described in Section 501 (c) (3) of the Internal Revenue Code, and is audited by other auditors.

The Foundation originally issued \$3,050,000 in notes to contract the Meadows Facility which is a housing/hospital project. The notes do not constitute general obligations of the City or change the general credit or taxing powers of the City.

The City is leasing the facility from the Foundation. The City is not expecting to incur costs from this lease as the Foundation will remit funds to the City in amounts sufficient to cover the lease payments. However, during the year, the principal and interest payments of \$105,781 and \$133,971, respectively, were paid directly by the Foundation. The City's obligations under this lease purchase agreement are not general obligations of the City.

The future minimum lease payments under the capital lease are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 112,865	126,887	239,752
2007	120,424	119,328	239,752
2008	128,489	111,263	239,752
2009	137,094	102,658	239,752
2010	146,275	93,477	239,752
2011	156,072	83,680	239,752
2012	166,524	73,228	239,752
2013	177,677	62,075	239,752
2014	189,576	50,176	239,752
2015	202,272	37,480	239,752
2016	215,819	23,933	239,752
2017	230,273	9,479	239,752
2018	<u>19,871</u>	<u>108</u>	<u>19,979</u>
Total	\$ 2,003,231 <u>=====</u>	893,772 <u>=====</u>	2,897,003 <u>=====</u>

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

(7) Deficit Fund Balance

The Capital Project Fund, Street Project had a deficit balance of \$146,372 at June 30, 2005.

The deficit balance was a result of project costs incurred prior to availability of funds.

The deficit will be eliminated upon receipt of bond proceeds.

The Capital Project Fund, CDBG Project had a deficit balance of \$20,967 at June 30, 2005.

The deficit balance was a result of project costs incurred prior to availability of funds.

The deficit will be eliminated upon future receipts.

The Special Revenue Fund, Emergency Levy had a deficit balance of \$232 at June 30,

2005. The deficit balance was a result of costs incurred prior to availability of funds.

The deficit will be eliminated upon receipt of property taxes.

(8) Wright County Landfill Authority

The City, in conjunction with twelve other municipalities, has created the Wright County Landfill Authority. The Authority was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Authority will be prorated among municipalities. The Authority is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

If the Authority has not accumulated sufficient financial resources, the participating governments are obligated for a proportionate share of the debt. Therefore, the City of Clarion has an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. During the year ended June 30, 2005, the City of Clarion paid the Authority \$74,200 for its share of the costs. Completed financial statements for the Authority can be obtained from the Wright County Landfill.

City of Clarion, Iowa
Notes to Financial Statements

June 30, 2005

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: TIF	\$ <u>51,425</u>
Capital Projects: CDBG	Special Revenue: Local Option Sales Tax	<u>5,000</u>
Capital Projects: Street Projects	Enterprise: Water	132,000
	Special Revenue: Local Option Sales Tax	80,000
	Debt Service	<u>16,928</u>
		<u>228,928</u>
Capital Projects: Library Building Project	Special Revenue: Library Improvement	<u>25,000</u>
Capital Projects: Swimming Pool Project	Special Revenue: TIF	<u>150,000</u>
Special Revenue: Road Use	Capital Projects: Street Projects	<u>107,300</u>
Special Revenue: TIF	Capital Projects: Street Projects	<u>23,183</u>
Total		\$ <u>590,836</u> =====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Clarion, Iowa

Notes to Financial Statements

June 30, 2005

(10) Risk Management

The City of Clarion is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the past three fiscal years.

(11) Commitments

At June 30, 2005, the following construction commitments have been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred to Date</u>
Pool	\$ 1,547,000	\$ 86,631
Airport	341,097	21,595
Library	1,500,000	50,000

These projects will be funded by a variety of sources; issuance of bonds, contribution, grants, local option sales taxes and tax increment financing collections.

(12) Subsequent Events

In August, 2005, the City approved the issuance of \$950,000 Aquatic Center TIF notes.

(13) Restatements

The Transit Fund was moved from a proprietary fund to the General Fund, as this more accurately describes the activity of the Transit Account. Beginning net assets have been restated to reclassify the Transit Account.

City of Clarion, Iowa
Notes to Financial Statements

June 30, 2005

	Governmental <u>Activities</u>	Business Type <u>Activities</u>
Cash basis net assets June 30, 2004, as previously reported	\$ 1,782,607	\$ 870,622
Reclassify Transit Fund	<u>10,299</u>	<u>(10,299)</u>
Cash basis net assets July 1, 2004, as restated	\$ 1,792,906 =====	\$ 860,323 =====

Required Supplementary Information

City of Clarion, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	<u>Net</u>
Receipts:			
Property tax	\$ 906,335	-	906,335
Tax increment financing collections	376,982	-	376,982
Other city tax	265,184	-	265,184
Licenses and permits	4,617	-	4,617
Use of money and property	66,533	135	66,668
Intergovernmental	479,669	-	479,669
Charges for service	382,081	784,966	1,167,047
Special assessments	257,755	-	257,755
Miscellaneous	177,494	5,159	182,653
Total Receipts	<u>2,916,650</u>	<u>790,260</u>	<u>3,706,910</u>
Disbursements:			
Public safety	567,306	-	567,306
Public works	610,639	-	610,639
Health and social services	-	-	-
Culture and recreation	299,356	-	299,356
Community and economic development	70,848	-	70,848
General government	195,578	-	195,578
Debt service	597,032	-	597,032
Capital projects	538,813	-	538,813
Business type activities	-	771,586	771,586
Total disbursements	<u>2,879,572</u>	<u>771,586</u>	<u>3,651,158</u>
Excess (deficiency) of receipts over (under) disbursements	37,078	18,674	55,752
Other financing sources, net	<u>29,475</u>	<u>(132,000)</u>	<u>(102,525)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	66,553	(113,326)	(46,773)
Balances beginning of year	<u>1,792,906</u>	<u>860,323</u>	<u>2,653,229</u>
Balances end of year	<u>\$ 1,859,459</u>	<u>746,997</u>	<u>2,606,456</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
<u>Original</u>	<u>Final</u>	Net <u>Variance</u>
911,372	911,372	(5,037)
359,176	359,176	17,806
212,619	212,619	52,565
23,925	23,925	(19,308)
66,840	66,840	(172)
267,235	267,235	212,434
1,353,865	1,353,865	(186,818)
64,525	64,525	193,230
82,150	82,150	100,503
<u>3,341,707</u>	<u>3,341,707</u>	<u>365,203</u>
540,811	592,311	25,005
284,515	2,005,165	1,394,526
6,000	6,000	6,000
287,498	287,498	(11,858)
254,672	254,672	183,824
224,928	224,928	29,350
327,744	327,744	(269,288)
360,000	543,964	5,151
793,076	975,148	203,562
<u>3,079,244</u>	<u>5,217,430</u>	<u>1,566,272</u>
262,463	(1,875,723)	1,931,475
<u>-</u>	<u>2,138,186</u>	<u>(2,240,711)</u>
262,463	262,463	(309,236)
<u>2,215,267</u>	<u>2,215,267</u>	<u>437,962</u>
<u>2,477,730</u>	<u>2,477,730</u>	<u>128,726</u>

City of Clarion, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budget receipts and disbursements by \$2,138,186. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

Other Supplementary Information

City of Clarion, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	<u>Special Revenue</u>	
	<u>Road Use Tax</u>	<u>Employee Benefit</u>
Receipts:		
Property tax	\$ -	164,674
Other city tax	-	6,153
Use of money and property	-	-
Intergovernmental	246,777	-
Special assessments	-	-
Miscellaneous	6,380	16,019
Total receipts	<u>253,157</u>	<u>186,846</u>
Disbursements:		
Public safety	-	95,337
Public works	340,467	37,008
Culture and recreation	-	36,480
General government	-	21,000
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>340,467</u>	<u>189,825</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(87,310)</u>	<u>(2,979)</u>
Other financing sources (uses):		
Operating transfers in	107,300	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>107,300</u>	<u>-</u>
Net change in cash balances	19,990	(2,979)
Cash balances beginning of year	120,277	79,143
Cash balances end of year	<u>\$ 140,267</u>	<u>76,164</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
Special revenue funds	140,267	76,164
Capital project funds	-	-
Permanent fund	-	-
Total cash basis fund balance	<u>\$ 140,267</u>	<u>76,164</u>

Schedule 1

Special Revenue			Capital Projects	
Emergency Levy	Local Option Sales Tax	Library Improvement	Library Building Project	Swimming Pool Project
13,657	-	-	-	-
510	233,180	-	-	-
-	-	6	-	-
-	-	3,300	-	-
-	-	-	-	-
-	21,371	8,864	51,737	-
<u>14,167</u>	<u>254,551</u>	<u>12,170</u>	<u>51,737</u>	<u>-</u>
16,046	84,605	-	-	-
-	5,726	-	-	-
-	18,930	6,250	-	-
-	18,145	-	-	-
-	-	-	-	-
-	-	-	51,122	86,632
<u>16,046</u>	<u>127,406</u>	<u>6,250</u>	<u>51,122</u>	<u>86,632</u>
<u>(1,879)</u>	<u>127,145</u>	<u>5,920</u>	<u>615</u>	<u>(86,632)</u>
-	-	-	25,000	150,000
-	(85,000)	(25,000)	-	-
-	(85,000)	(25,000)	25,000	150,000
(1,879)	42,145	(19,080)	25,615	63,368
1,647	311,920	46,321	-	-
<u>(232)</u>	<u>354,065</u>	<u>27,241</u>	<u>25,615</u>	<u>63,368</u>
-	-	-	-	-
(232)	354,065	27,241	-	-
-	-	-	25,615	63,368
-	-	-	-	-
<u>(232)</u>	<u>354,065</u>	<u>27,241</u>	<u>25,615</u>	<u>63,368</u>

(continued)

City of Clarion, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Capital Projects	
	CDBG	Community Center Project
Receipts:		
Property tax	\$ -	-
Other city tax	-	-
Use of money and property	-	-
Intergovernmental	147,847	-
Special assessments	-	-
Miscellaneous	4,480	-
Total receipts	<u>152,327</u>	<u>-</u>
Disbursements:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
General government	-	-
Debt service	-	-
Capital projects	178,294	-
Total disbursements	<u>178,294</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(25,967)</u>	<u>-</u>
Other financing sources (uses):		
Operating transfers in	5,000	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>5,000</u>	<u>-</u>
Net change in cash balances	(20,967)	-
Cash balances beginning of year	-	160,000
Cash balances end of year	<u>\$ (20,967)</u>	<u>160,000</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
Special revenue funds	-	-
Capital project funds	(20,967)	160,000
Permanent fund	-	-
Total cash basis fund balance	<u>\$ (20,967)</u>	<u>160,000</u>

See accompanying independent auditor's report.

Schedule 1

<u>Debt Service</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
267,920	-	446,251
8,216	-	248,059
-	-	6
-	-	397,924
70,671	-	70,671
-	750	109,601
<u>346,807</u>	<u>750</u>	<u>1,272,512</u>
-	-	195,988
-	-	383,201
-	-	61,660
-	-	39,145
377,168	-	377,168
-	-	316,048
<u>377,168</u>	<u>-</u>	<u>1,373,210</u>
<u>(30,361)</u>	<u>750</u>	<u>(100,698)</u>
-	-	287,300
<u>(16,928)</u>	<u>-</u>	<u>(126,928)</u>
<u>(16,928)</u>	<u>-</u>	<u>160,372</u>
<u>(47,289)</u>	<u>750</u>	<u>59,674</u>
<u>343,815</u>	<u>52,528</u>	<u>1,115,651</u>
<u>296,526</u>	<u>53,278</u>	<u>1,175,325</u>
296,526	-	296,526
-	-	597,505
-	-	228,016
<u>-</u>	<u>53,278</u>	<u>53,278</u>
<u>296,526</u>	<u>53,278</u>	<u>1,175,325</u>

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2005

	Storm Sewer <u>Permits</u>	<u>Landfill</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ -	86,471	86,471
Miscellaneous	-	187	187
Total receipts	<u>-</u>	<u>86,658</u>	<u>86,658</u>
Operating disbursements:			
Business type activities	<u>-</u>	<u>88,284</u>	<u>88,284</u>
Net change in cash balances	-	(1,626)	(1,626)
Cash balances beginning of year	<u>150</u>	<u>77,329</u>	<u>77,479</u>
Cash balances end of year	<u>\$ 150</u>	<u>75,703</u>	<u>75,853</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 150</u>	<u>75,703</u>	<u>75,853</u>
Total cash basis fund balances	<u>\$ 150</u>	<u>75,703</u>	<u>75,853</u>

See accompanying independent auditor's report.

City of Clarion, Iowa

Schedule of Indebtedness

Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Capital loan note	Apr 6, 1990	4.90 %	\$ 250,000
Capital loan note	Nov 20, 1990	4.90	250,000
Capital loan note	Dec 15, 1992	5.90	295,000
Capital loan anticipation note	May 1, 1995	5.00-5.80	565,000
Capital loan anticipation note	Aug 1, 1998	4.25-4.75	405,000
Capital loan note	Feb 1, 2000	4.80-5.50	420,000
Capital loan note	May 1, 2000	5.00-5.50	725,000
Capital loan note	May 1, 2001	4.10-5.00	540,000
Capital loan note	Apr 1, 2002	3.00-5.00	470,000
Capital loan anticipation note	Jul 18, 2003	1.75	1,200,000
Capital loan note	Oct 1, 2004	2.50-4.20	990,000
Total			
Revenue bonds and notes:			
Water	Jul 1, 1976	5.00	\$ 1,100,000
Sewer capital loan note	Aug 1, 1995	4.45-5.75	410,000
Water capital loan note	Apr 1, 1999	4.15-5.35	850,000
Total			
Special assessment notes:			
Roadway/utility improvement	Nov 1, 1998	4.50-5.00	\$ 120,000
Street improvement	Feb 1, 2000	5.10-6.00	71,000
Street improvement	May 1, 2000	5.10-6.00	285,000
Street improvement	Oct 1, 2004	2.80-4.85	130,000
Total			

See accompanying independent auditor's report.

Schedule 3

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
30,000	-	30,000	-	1,457	-
41,169	-	24,707	16,462	2,028	-
204,809	-	22,064	182,745	11,435	-
140,000	-	70,000	70,000	8,085	-
225,000	-	40,000	185,000	10,385	-
285,000	-	40,000	245,000	15,228	-
515,000	-	75,000	440,000	27,720	-
450,000	-	50,000	400,000	21,030	-
395,000	-	40,000	355,000	18,015	-
1,200,000	-	1,200,000	-	5,250	-
-	990,000	-	990,000	-	-
<u>\$ 3,485,978</u>	<u>990,000</u>	<u>1,591,771</u>	<u>2,884,207</u>	<u>120,633</u>	<u>-</u>
615,000	-	35,000	580,000	30,750	-
100,000	-	100,000	-	4,359	-
670,000	-	-	670,000	-	-
<u>\$ 1,385,000</u>	<u>-</u>	<u>135,000</u>	<u>1,250,000</u>	<u>35,109</u>	<u>-</u>
70,000	-	10,000	60,000	3,435	-
50,000	-	5,000	45,000	2,895	-
180,000	-	30,000	150,000	9,525	-
-	130,000	-	130,000	-	-
<u>\$ 300,000</u>	<u>130,000</u>	<u>45,000</u>	<u>385,000</u>	<u>15,855</u>	<u>-</u>

City of Clarion, Iowa

Bond and Note Maturities

June 30, 2005

Year Ending <u>June 30,</u>	General Obligation Bonds and Notes			
	Capital Loan Notes			
	Issued Nov 20, 1990		Issued Dec 15, 1992	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2006	4.90 %	\$ 16,462	7.00 %	\$ 23,608
2007		-	7.00	25,260
2008		-	7.00	27,029
2009		-	7.00	28,921
2010		-	7.00	30,945
2011		-	7.00	33,111
2012		-	7.00	13,871
Total		<u>\$ 16,462</u>		<u>\$ 182,745</u>

Year Ending <u>June 30,</u>	General Obligation Bonds and Notes			
	Capital Loan Notes			
	Issued May 1, 2001		Issued Apr 1 2002	
	Interest		Interest	
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
2006	4.40 %	\$ 50,000	4.10	\$ 45,000
2007	4.50	50,000	4.30	45,000
2008	4.60	55,000	4.50	50,000
2009	4.70	55,000	4.70	50,000
2010	4.80	60,000	4.80	50,000
2011	4.90	65,000	4.90	55,000
2012	5.00	65,000	5.00	60,000
2013		-		-
2014		-		-
2015		-		-
Total		<u>\$ 400,000</u>		<u>\$ 355,000</u>

General Obligation Bonds and Notes			
Capital Loan Notes			
Issued Feb 1, 2000		Issued May 1, 2000	
Interest		Interest	
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>
5.25 %	\$ 45,000	5.30 %	\$ 80,000
5.30	45,000	5.35	85,000
5.35	50,000	5.40	85,000
5.40	50,000	5.45	90,000
5.50	55,000	5.50	100,000
-	-	-	-
-	-	-	-
	<u>\$ 245,000</u>		<u>\$ 440,000</u>

General Obligation Bonds and Notes						
Capital Loan Anticipation Notes				Capital Loan Notes		
Issued May 1, 1995		Issued Aug 1, 1998		Issued Oct 1, 2004		
Interest		Interest		Interest		Total
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
5.80 %	\$ 70,000	4.55 %	\$ 45,000	2.50 %	\$ 20,000	395,070
-	-	4.60	45,000	2.80	20,000	315,260
-	-	4.65	45,000	3.05	25,000	337,029
-	-	4.75	50,000	3.30	25,000	348,921
-	-	-	-	3.50	25,000	320,945
-	-	-	-	3.70	95,000	248,111
-	-	-	-	3.85	120,000	258,871
-	-	-	-	4.00	210,000	210,000
-	-	-	-	4.10	220,000	220,000
-	-	-	-	4.20	230,000	230,000
	<u>\$ 70,000</u>		<u>\$ 185,000</u>		<u>\$ 990,000</u>	<u>2,884,207</u>

(continued)

City of Clarion, Iowa

Bond and Notes Maturities

June 30, 2005

Revenue Bonds and Notes						
Year Ending June 30,	Water			Water Capital Loan Note		
	Issued Jul 1, 1976			Issued Apr 1, 1999		
	Interest			Interest		
	<u>Rates</u>	<u>Amount</u>		<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2006	5.00 %	\$ 35,000		4.55 %	\$ 45,000	80,000
2007	5.00	40,000		4.60	45,000	85,000
2008	5.00	40,000		4.65	45,000	85,000
2009	5.00	40,000		4.70	50,000	90,000
2010	5.00	45,000		4.80	50,000	95,000
2011	5.00	45,000		4.90	55,000	100,000
2012	5.00	50,000		5.00	55,000	105,000
2013	5.00	55,000		5.10	55,000	110,000
2014	5.00	55,000		5.15	60,000	115,000
2015	5.00	55,000		5.12	65,000	120,000
2016	5.00	60,000		5.25	70,000	130,000
2017	5.00	60,000		5.35	75,000	135,000
Total		<u>\$ 580,000</u>			<u>\$ 670,000</u>	<u>1,250,000</u>

Special Assessment Notes						
Year Ending June 30,	Roadway/Utility Improvement			Street Improvements		
	Issued Nov 1, 1998			Issued Feb 1, 2000		
	Interest			Interest		
	<u>Rates</u>	<u>Amount</u>		<u>Rates</u>	<u>Amount</u>	
2006	4.85 %	\$ 15,000		5.60 %	\$ 5,000	
2007	4.90	15,000		5.70	10,000	
2008	4.95	15,000		5.80	10,000	
2009	5.00	15,000		5.90	10,000	
2010		-		6.00	10,000	
2011		-			-	
2012		-			-	
2013		-			-	
2014		-			-	
2015		-			-	
		<u>\$ 60,000</u>			<u>\$ 45,000</u>	

See accompanying independent auditor's report.

Special Assessment Notes

Street Improvements				
Issued May 1, 2000		Issued Oct 1, 2004		
Interest		Interest		
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
5.60 %	\$ 30,000	2.80 %	\$ 10,000	60,000
5.70	30,000	3.10	10,000	65,000
5.80	30,000	3.40	10,000	65,000
5.90	30,000	3.70	10,000	65,000
6.00	30,000	4.00	15,000	55,000
-	-	4.20	15,000	15,000
-	-	4.40	15,000	15,000
-	-	4.55	15,000	15,000
-	-	4.70	15,000	15,000
-	-	4.85	15,000	15,000
	<u>\$ 150,000</u>		<u>\$ 130,000</u>	<u>385,000</u>

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 906,335	803,611	892,717
Tax increment financing collections	376,982	312,304	363,415
Other city tax	265,184	192,088	169,396
Licenses and permits	4,617	5,507	5,176
Use of money and property	66,533	56,817	55,528
Intergovernmental	479,669	288,939	327,171
Charges for service	382,081	198,059	173,370
Special assessments	257,755	250,396	146,587
Miscellaneous	<u>177,494</u>	<u>209,806</u>	<u>273,752</u>
Total	<u>\$ 2,916,650</u>	<u>2,317,527</u>	<u>2,407,112</u>
Disbursements:			
Operating			
Public safety	\$ 567,306	536,686	534,728
Public works	610,639	1,259,778	268,437
Culture and recreation	299,356	303,255	288,829
Community and economic development	70,848	172,148	443,805
General government	195,578	197,765	214,565
Debt service	597,032	581,359	590,099
Capital projects	<u>538,813</u>	<u>-</u>	<u>86,460</u>
Total	<u>\$ 2,879,572</u>	<u>3,050,991</u>	<u>2,426,923</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Clarion, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents and have issued our report dated November 3, 2005. Our report expressed an unqualified opinion on the primary government's financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clarion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Clarion's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Clarion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Clarion and other parties to whom the City of Clarion may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Clarion during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

November 3, 2005

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain accounting functions are not properly segregated.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review procedures and make changes to improve internal control where possible.

Conclusion – Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and report.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositors – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget – Disbursements during the year ended June 30, 2005, exceeded the amount budgeted in the culture and recreation and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.14 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will do this in the future, if applicable.

Conclusion – Response accepted.

- II-C-05 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-05 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Council Minutes – We noted three transactions requiring council approval had not been approved by the Board.

Recommendation – All expenditures should be approved by the council.

Response – This was an oversight on our part this year. We will have the council approve these transactions after the fact and make sure all bills are listed for the council's approval in the future.

Conclusion – Response accepted.

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

II-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

II-I-05 Revenue Bonds and Notes – The City’s water system did not maintain net revenue of 125% of the principle and interest due on the water revenue bonds as stated in the loan agreement.

Recommendation – The City should consult their bonding financial advisor concerning this matter.

Response – We will do this.

Conclusion – Response accepted.

II-J-05 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Special Revenue Fund, TIF Account. Chapter 384.4 of the Code of Iowa states in part “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.”

Recommendation – The City should transfer from the Special Revenue Fund, TIF Account to the Debt Service Fund, General Obligation Bonds Account for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

- II-K-05 Sales Tax – Sales tax on sewer services provided to non-residential commercial operations was not assessed.

Recommendation – The City should assess sales tax on sewer services provided to non-residential commercial operations in accordance with the Iowa Department of Revenue.

Response – This has been corrected.

Conclusion – Response accepted.

- II-L-05 Financial Condition – The Capital Project Fund, Street Project Account had a deficit balance at June 30, 2005 of \$146,372. The Capital Project Fund, CDBG Project had a deficit balance at June 30, 2005 of \$20,967. The Special Revenue Fund, Emergency Levy, had a deficit balance at June 30, 2005 of \$232.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return this account to a sound financial position.

Response – See footnote #8 to the financial statements for detail on how these deficits will be eliminated.

Conclusion – Response accepted.

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

II-M-05 Other Information Required by Bond and Note Resolutions – The following insurance policies were in force at June 30, 2005.

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial property	\$ 3,784,940	Apr 1, 2006
Employers Mutual Casualty	General liability:		
	General aggregate limit	\$ 2,000,000	Apr 1, 2006
	Products/complete operation	2,000,000	Apr 1, 2006
	Personal and/or advertising injury limit	1,000,000	Apr 1, 2006
	Each occurrence limit	1,000,000	Apr 1, 2006
	Fire damage limit	100,000	Apr 1, 2006
	Medical expense limit	5,000	Apr 1, 2006
Employers Mutual Casualty	Inland Marine:		
	Contractor's equipment	\$ 494,500	Apr 1, 2006
	Valuable papers and record	Various	Apr 1, 2006
Employers Mutual Casualty	Commercial Automobile:		
	Liability	\$ 1,000,000	Apr 1, 2006
	Auto medical payments	5,000	Apr 1, 2006
	Uninsured motorists	50,000	Apr 1, 2006
	Uninsured motorists	50,000	Apr 1, 2006
	Comprehensive	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	Apr 1, 2006
	Collision	Actual cash value or cost of repairs whichever is less minus deductible as shown on schedule for each covered auto	Apr 1, 2006

City of Clarion, Iowa

Schedule of Findings

Year ended June 30, 2005

<u>Insurer</u>	<u>Description</u>	<u>Amount</u>	<u>Expiration Date</u>
Employers Mutual Casualty	Commercial Crime – Inside premises	\$ 25,000	Apr 1 2006
	Commercial Crime – Outside premises	25,000	Apr 1, 2006
	Public Employee Dishonesty	175,000	Apr 1, 2006
	Forgery/Alteration	10,000	Apr 1, 2006
Employers Mutual Casualty	Commercial Umbrella: Occurrence limit	\$ 5,000,000	Apr 1, 2006
	Aggregate limit	5,000,000	Apr 1, 2006
Signal Aviation Underwriters	General Liability: Airport	\$ 1,000,000	May 1, 2006
Iowa Municipalities Workers' Compensation Association	Workers' Compensation Self Insurance retention: each occurrence	\$ 1,000,000	Jul 1, 2006